TAXATION & REVENUE
NEW MEXICO

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Tax Expenditure Report details cost of credits, deductions

Latest accounting reflects pandemic effects on economy and relief efforts

Pandemic relief legislation signed into law by Gov. Michelle Lujan Grisham are reflected in the latest Tax Expenditure Report published by the Taxation and Revenue Department.

Tax expenditures include credits, deductions, exemptions and other mechanisms that reduce the amount of revenue that would otherwise flow into state or local coffers. This year's report can be found in the "Publications" folder on the Forms & Publications page at tax.newmexico.gov.

"This report is an important transparency tool that allows lawmakers and the public to evaluate the state's tax code," said Taxation and Revenue Secretary Stephanie Schardin Clarke. "Just as the state's appropriations are evaluated and reprioritized every year, tax expenditures should be periodically reviewed to ensure they are achieving their intended results at an appropriate cost."

According to the most recent report, the Gross Receipts Tax (GRT) deduction on food intended for home consumption was the largest expenditure in FY 2021 at $442.5 million.

Other top expenditures in 2021 and their value were:

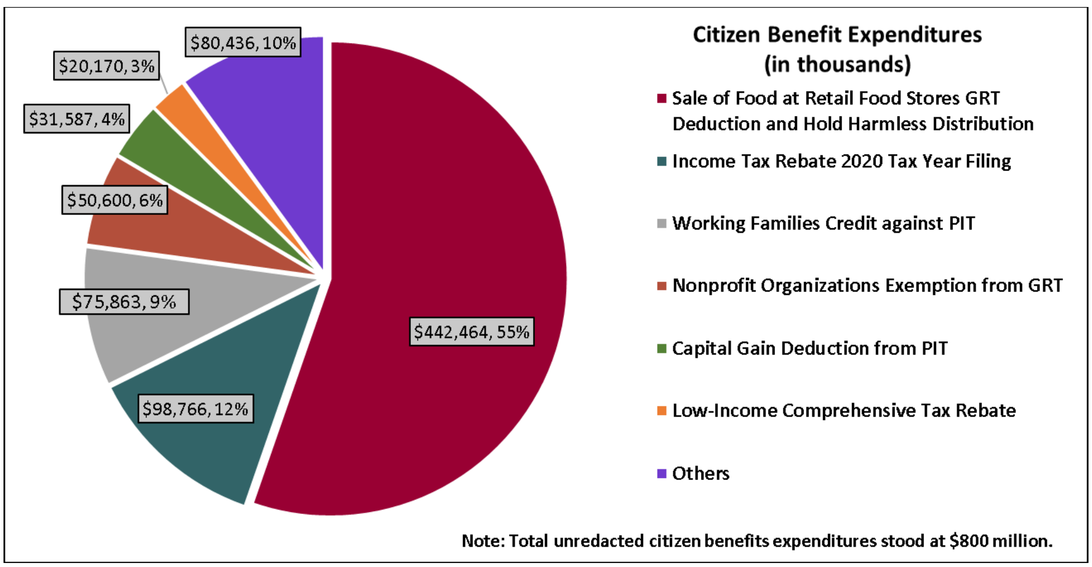
- The 60% GRT deduction for hospitals, at $227.1 million
- The GRT deduction for prescription drugs and oxygen, $183 million
- A one-time $600 Personal Income Tax (PIT) rebate for many low-income workers who claimed the Working Families Tax Credit, $98.8 million
- The Working Families Tax Credit itself, $75.9 million.

The $600 PIT rebate was implemented specifically to help low-income working families affected by the pandemic.

The cost of the deduction on groceries, traditionally the largest of the state's tax expenditures, was up substantially over pre-pandemic levels as food consumption shifted away from restaurants. A temporary GRT deduction for restaurants and bars provided $51 million in relief to the hard-hit restaurant industry, according to the report.

Other expenditures also were affected by differing economic effects of the pandemic. The deduction for hospitals, for example, was up significantly from prior years because of increased hospitalizations and hospital receipts. But a separate deduction aimed at health care providers fell as many people delayed other kinds of medical care.

The report also breaks down the beneficiaries of tax expenditures into five main categories. "Citizen Benefits" is the largest, accounting for $800 million in unredacted expenditures, or about 51%.



Health Care had the second-largest share of unredacted tax expenditures at $496 million or 31%, followed by Economic Development at 10% of tax expenditures in FY21, or $160 million; then Highly Specialized Industry, which benefited from $115 million in expenditures, or 7% of the total; and then Environment, Conservation & Renewable Energy at $11 million or 1%.

Certain tax expenditure data is redacted in the report if fewer than three taxpayers claim the item. While the department cautions to take aggregated tax expenditure totals with a grain of salt due to possible double counting and varying reliability of estimates, this year's report includes aggregate totals for the first time.

The Tax Expenditure Report will be presented to the legislative Revenue Stabilization and Tax Policy Committee on Nov. 23 at 11:00 am.

The Taxation and Revenue Department serves the State of New Mexico by providing fair and efficient tax and motor vehicle services. It administers more than 35 tax programs and distributes revenue to the State and to local and tribal governments throughout New Mexico.

The Department strives to reduce taxpayer burden through clearer communication, statutes, regulations, forms, correspondence and instructions.

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